# Japan: Telecommunications market

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## Summary

The telecom equipment market in Japan has leveled off from 2004 to 2006. Japan's Ministry of Internal Affairs and Communications (MIC) indicated that (as of December 2006) there are 30 million broadband users in Japan. The broadband users include users of DSL, CATV, FTTH (Fiber To The Home), FWA and public Wireless LAN. This widespread accessibility of broadband continues to facilitate the use of other applications such as Voice/Video over IP and video-on-demand.

## Market Overview

The major players in the cellular phone market are NTT DoCoMo, KDDI and Softbank, which control 54.4%, 29.1% and 16.5% of the market, respectively. Softbank purchased Vodafone and became the third largest telecom company in Japan. eAccess and IP Mobile were granted licenses in 2005, and eAccess started providing service in March 2007 in the center part of Tokyo, Nagoya, Kyoto and Osaka. The deadline for IP Mobile's service launch is November 2007. There is some skepticism about their launch due to the financial challenges the company is facing.

**Telecommunications Equipment Market (million USD)**

| | 2004 | 2005 | 2006 |
|---|---|---|---|
| Import Market | 2,929 | 3,381 | 3,876 |
| Local Production | 26,047 | 24,519 | 23,247 |
| Exports | 4,398 | 3,462 | 2,922 |
| Total Market | 24,577 | 24,438 | 24,201 |

(Source: Communications and Information Network Association of Japan)

**Exchange rate Used**

| | 2004 | 2005 | 2006 |
|---|---|---|---|
| Yen to the dollar | 108.15 | 110.11 | 116.31 |

The types of networks deployed in Japan are mainly DSL, FTTH, CATV, FWA , and Public Wireless LAN. Total broadband subscribers were 31.7 million in December 2006.

For DSL, BB Technology, NTT East and NTT West cover 74 percent of the total network deployed. The annual net increase of DSL subscribers has been decreasing every year. The number of FTTH users increased 71 percent over a year in 2006, and FTTH is now the second largest network (surpassing CATV). As for FTTH, NTT East and NTT West also cover 68 percent of the total FTTH market. NTT expects that the number of FTTH subscribers will increase rapidly to reach 30 million by 2010. While DSL plays a key role for broadband access at the moment, more and more people are changing network access to FTTH. FWA network has steadily decreasing over the past three years, while public wireless LAN has decreased 6 percent since 2005.

**Broadband Subscribers (lines)**

| | Dec. 2004 | Dec. 2005 | Dec. 2006 |
|---|---|---|---|
| FTTH | 2,432,093 | 4,637,280 | 7,940,384 |
| DSL | 13,325,408 | 14,480,958 | 14,236,041 |
| CATV | 2,873,076 | 3,236,466 | 3,567,075 |
| FWA | 26,435 | 20,230 | 11,580 |
| Public Wireless LAN | 97,369 | 6,252,805 | 5,900,350 |

(Source: MIC)

| Service | Company | Market Share (%) |
|---|---|---|
| DSL | BB Technology | 36 |
| | NTT East | 20 |
| | NTT West | 18 |
| | eAccess | 14 |
| | ACCA Networks | 8 |
| | Others | 4 |
| FTTH | NTT East | 38 |
| | NTT West | 30 |
| | USEN | 7 |
| | KDDI | 7 |
| | K-Opti.Com | 6 |
| | Others | 12 |

(Source: *Telecommunication*, RicTelecom)

“Triple play” service is being offered in Japan using FTTH and DSL networks. The service includes internet connection, IP telephone, and IP broadcasting including video-on-demand. The visibility of this “triple play” service is becoming high with the improvement and enrichment of contents. Currently, TV programs provided via terrestrial broadcasting are not available for IP television because of intellectual property issues.

Wi-Fi is a very popular wireless technology for internet connection, which is used at home and offices. IEEE 802.11g and 802.11b are commonly used. There are “Hot Spots” in major railway stations, air terminals and hotels. NTT Communications offers “Hot Spot” service in more than 3,000 areas throughout Japan.

As for the fixed-line (voice) market, major players include NTT, KDDI and Softbank. NTT is the dominant carrier, which controls 85 percent of the market. The government is required to hold at least one third of the company by NTT law. Price competition for telephone service is fierce and the introduction of IP telephony has only added fuel to the competitive fire. The number of fixed-lines has been decreasing since 1998, while the IP telephone market has been expanding and exceeded 13 million lines in the first half of 2006. It is expected that the number of IP telephone subscribers would expand to more than 26 million lines in 2011. IP telephone service is an additional service to DSL and FTTH subscriptions.

## Regulatory regime; Standards:

Japan has two regulations relating to technical standards of telecommunications equipment: the "Telecommunications Business Law (TBL)" and the "Radio Law". Each stipulate the technical standards for telecommunications equipment. TBL is designed to ensure reliable and stable telecommunications services and covers the equipment owned by carriers and the terminal equipment to be connected with the line facilities owned by carriers. The Radio Law is designed to ensure fair and efficient utilization of radio waves, and covers equipment using radio waves and is predicated on the issuance of licenses for radio stations. Telecom carriers need to certify their compliance with the technical standards of the TBL with MIC for their equipment. Wireless equipment and mobile phones also have to comply with technical standards of the aforementioned laws.

The Japan Approvals Institute for Telecom Equipment (JATE) is the Government of Japan's authorized institution for certifying telecom terminal equipment connected with Public Switched Telephone Networks (PSTN). The Telecom Engineering Center (TELEC) is the Government of Japan's authorized radio terminal equipment inspection facility. Any radio terminal equipment including PHS and cellular hand-held terminals must obtain TELEC certification. "No interference with other radio equipment" is the criteria for certification.

Japan Approvals Institute for Telecom Equipment (JATE)
Address: 1-1-3 Toranomon, Minato-ku, Tokyo 105-0001
Tel: 81-3-3591-4300; fax: 81-3-3591-4355
Homepage: http://www.jate.or.jp/index_e.html

Telecom Engineering Center (TELEC)
Address: 5-7-2 Yashio, Shinagawa-ku, Tokyo 140-0003
Tel: 81-3-3799-9034; fax: 81-3-3799-9054
Homepage: http://www.telec.or.jp/ENG/Index_e.htm

## Best prospects;

Carrier/Enterprise products (FTTH, FWA, Router/Switch, WDM/DWDM/CWDM, etc.); Mobile & Wireless; Voice, DV and HD Over IP; network security; tester/analyzer; other network related products.

## Distribution channels and best market entry strategies

As U.S. companies are likely to encounter well-entrenched customer attitudes and awareness in Japan, the best market entry strategy is to find the right partner, or to establish a presence in Japan, in order to navigate these hurdles and begin establishing a solid reputation. Japan is traditionally a risk-averse business culture. Accordingly, both businesses and consumers prefer well-known, well-established companies with strong track records.

For details on finding the right partner, see "For More Information" below.

For detailed procedures on setting up a business in Japan, please check the URL at:
http://www.jetro.go.jp/en/invest/setting_up/

## Barriers to entry;

In Japan, formal trade barriers such as tariffs are almost non-existent for telecom equipment, and most major European and North American telecom equipment suppliers are doing business there. As a result, Japan's telecom equipment market is very competitive with world-class domestic manufacturers willing to engage in aggressive price competition. There are more than 200 companies belonging to the Communications and Information Network Association of Japan (CIAJ), a telecom manufacturers' association (http://www.ciaj.or.jp/e.htm).

The United States and Japan signed a mutual recognition agreement (MRA) on February 16, 2007 that will help U.S. telecommunications and radio equipment makers market and sell their products in Japan and expand the acceptance in Japan of determinations made by U.S. certification bodies.

Under the agreement, Japan will accept the results of conformity assessment procedures (i.e., product testing and certification) performed by approved certification bodies in the United States demonstrating that telecommunications equipment meets Japan's technical requirements. Japan's agreement to accept certification by recognized U.S. bodies will lower costs and speed up the marketing in Japan of innovative U.S. products. For the details, please visit the NIST website at:
http://ts.nist.gov/Standards/Global/mra_rebuild_japan.cfm

## Upcoming Trade shows

| | |
|---|---|
| Name: | Interop Tokyo |
| Exhibition: | June 11 - 15, 2007 in Chiba, Japan |
| Website: | http://www.interop.jp/english/index.html |

## For More Information

The U.S. Commercial Service in Tokyo, Japan can be contacted via e-mail at: manabu.inoue@mail.doc.gov; Phone: 81-3-3224-5062; Fax: 81-3-3589-4235 or visit our website: http://www.buyusa.gov/japan/en.

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